

AR51

***Drummond, McCall
& Co., Limited
Annual Report
1972***

Contents

Directors and Officers	2
Highlights	3
Report to Shareholders	4
Photographs of Plant Operations	6
Earnings Statements	8
Balance Sheet	9
Notes to Financial Statements	10
Source and Application of Funds	12
Auditors' Report	12

Cover Illustration

Piercing five inch steel plate as a commencement to flame cutting a shape.

Directors

Douglas T. Bourke
President and Chief Operating Officer
Drummond, McCall & Co., Limited

Derek A. Drummond
Associate Professor of Architecture and
Associate Director School of Architecture
McGill University

Colin S. Glassco
Chairman, Southam Printing Limited

Alex D. Hamilton
President,
Domtar Pulp and Paper Products Limited

Howard J. Lang
Chairman and Chief Executive Officer
Canron Limited

A. David McCall
Research Manager
Drummond, McCall & Co., Limited

Hugh G. Seybold
Chairman of the Board and Chief Executive Officer
Drummond, McCall & Co., Limited

William T. Stewart, Q.C.
Partner, Byers, Casgrain & Stewart

Share Transfer Agent and Registrar

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver.

Executive Officers

Hugh G. Seybold
Chairman of the Board and Chief Executive Officer

Douglas T. Bourke
President and Chief Operating Officer

A. Edward Grundy
Vice-President

Stanley M. Petersen
Vice-President, Finance and Secretary-Treasurer

Bruce H. Weppler
Controller and Assistant Secretary-Treasurer

Head Office

5205 Fairway St.
Lachine, Quebec

Mailing Address:
P.O. Box 219
Montreal 101, Quebec

Offices and Plants

Halifax
Lachine
Toronto
Hamilton
Winnipeg
Calgary

Sales Offices

Quebec
Vancouver

Incorporation

Under the laws of Canada.

Highlights

(In thousands of dollars except where noted by asterisk)

	<u>1972</u>	<u>1971</u>
Revenues	\$55,078	\$49,289
Net earnings	1,683	1,505
Net earnings per common share*	1.20	1.07
Net earnings percent of revenues	3.1%	3.1%
Capital expenditures	286	466
Depreciation	566	578

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la compagnie, case postale 219, Montréal 101, Québec.

Directors' Report to the Shareholders



H. G. Seybold



D. T. Bourke

We take this opportunity to extend a very warm welcome to our new shareholders. As this is our first Annual Report as a public Company we felt that a brief history of the Company would be of interest at this time.

The Company was founded July 1, 1881, as a partnership under the name Drummond, McCall & Company, by George E. Drummond and James T. McCall, with an office in Montreal. The business of the Company was then the importing and distribution of pig iron, iron bars and steel plate.

In the span of 10 years the Company had customers in practically all cities and towns from Halifax to Vancouver, and in 1900 opened a branch in Toronto. In 1913 the partnership converted to the status of a limited company, and the name became Drummond, McCall & Co., Limited. The Company has continued to expand its facilities as can be seen by the list of offices and plants on page 2 of this report.

Drummond, McCall now maintains inventories of aluminum, copper and nickel and their alloys, carbon and stainless steel in all mill forms, thus making available a range of metal products broader than can be obtained from any single prime producer.

New equipment is constantly being added for the custom processing of metals into semi-finished form, in accordance with customers' requirements. A Chain Division in Montreal specializes in the manufacture and repair of alloy steel sling chains and operates a Lloyds approved 200 ton capacity tensile testing machine for chains and anchors.

In 1972 Drummond, McCall sales reached a record of 54.9 million dollars, an increase of almost 12% over those of 1971.

After tax net earnings for 1972 were 1.68 million dollars as against 1.50 million dollars for 1971.

Earnings were 3.1% of sales and 10.7% of average shareholders' equity for the year.

Working capital increased from 10.4 million dollars to 11.5 million dollars during this period.

Capital expenditure for the year was \$286,000, the money being used primarily for additional processing and material handling equipment.

Dividends per share paid during the year were 10.7 cents in the first quarter, 12.5 cents in the second and third quarters, and 15 cents on the Class A and 12.8 cents on the Class B in the final quarter.

The fourth quarter sales and earnings were good and it is hoped that they will continue at the same level in 1973.

A commitment of slightly in excess of \$300,000 has been made to increase the size of the Winnipeg plant, and it is expected that this addition will be operational in early summer of 1973 and that an immediate benefit in operating efficiency will be enjoyed.

The sudden death on January 18, 1972, of Alexander M. Hutchison, Chairman of the Board and President of Drummond, McCall is recorded with sorrow. The late Mr. Hutchison was a director of the Company since 1944, and President since May 11, 1965, and held these offices at the date of his death. His high character, keen interest, and drive resulted in an important contribution to the Company and to the industry. At the Annual Meeting of shareholders March 22, 1972, the resignation of Alan D. McCall, as a Director, was accepted with regret. Mr. McCall who had been a director of Drummond, McCall since 1931 served as President of the Company from April 7, 1955 to May 11, 1965 and as Chairman from May 1965 to June 10, 1971. It was during these years, when Mr. McCall was President, that the major capital expenditures were undertaken to modernize the Company's facilities and the rapid growth of earnings was experienced.

We welcome the election of Howard J. Lang, Chairman and Chief Executive Officer of Canron Limited, Alex D. Hamilton, President of Domtar Pulp and Paper Products Limited, and A. David McCall, Research Manager of the Company, to

the Board of Directors. The counsel of these new Directors is much appreciated.

The Annual Meeting of Shareholders will be held in the Vice-Regal Suite at the Ritz Carlton Hotel, Sherbrooke Street West, Montreal, Quebec on Friday, April 6th, 1973 at 11:00 a.m.

Your Board of Directors extends its thanks to the Company's employees for their loyal services, to suppliers and customers for their support, and to the shareholders for their continuing interest.

H. G. Seybold
Chairman of the Board
and Chief Executive Officer

D. T. Bourke
President and
Chief Operating Officer

March 15th, 1973



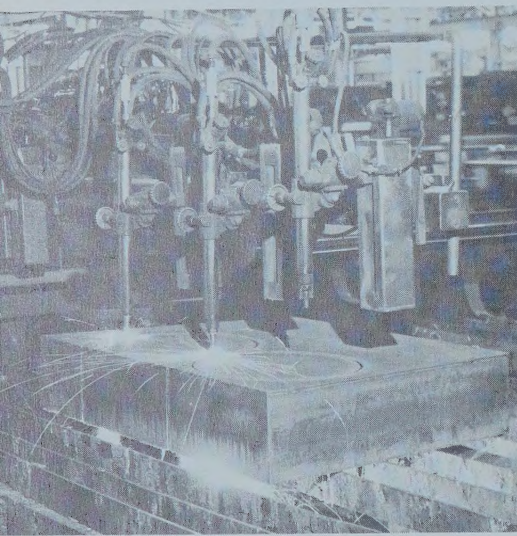
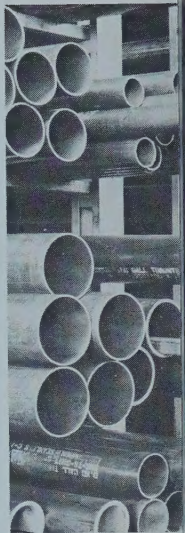
1



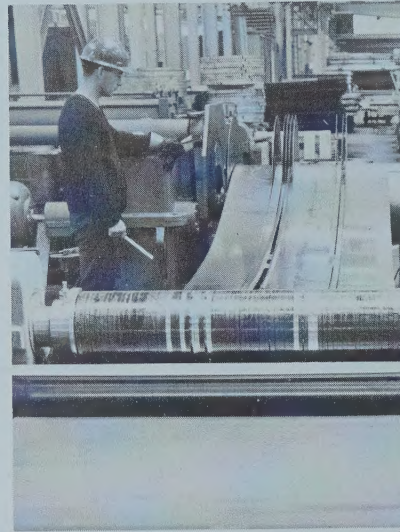
2



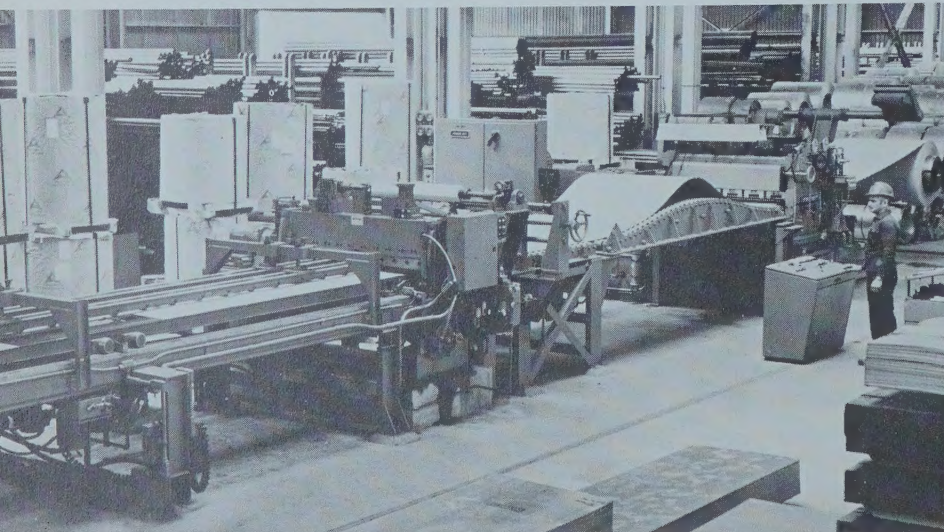
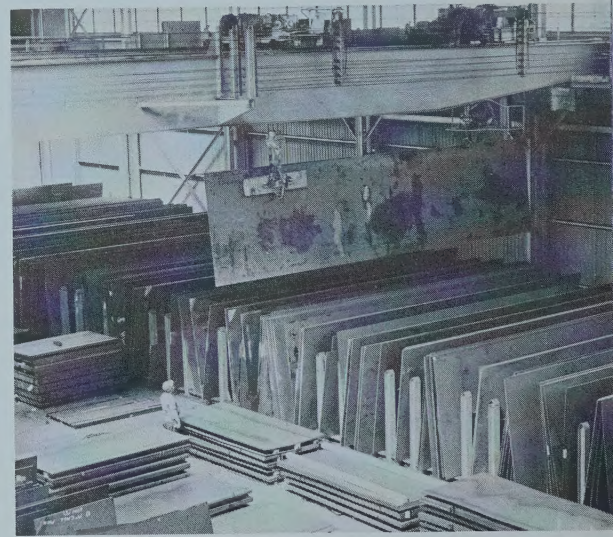
3



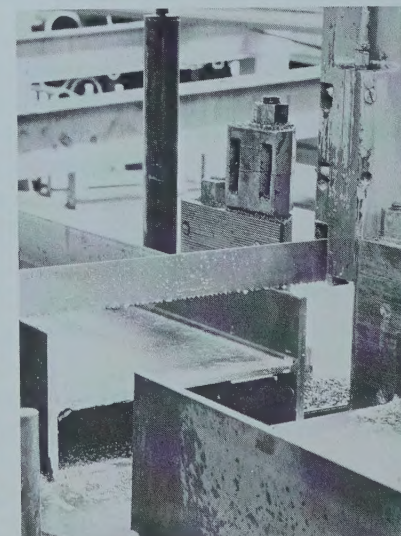
6



7



10

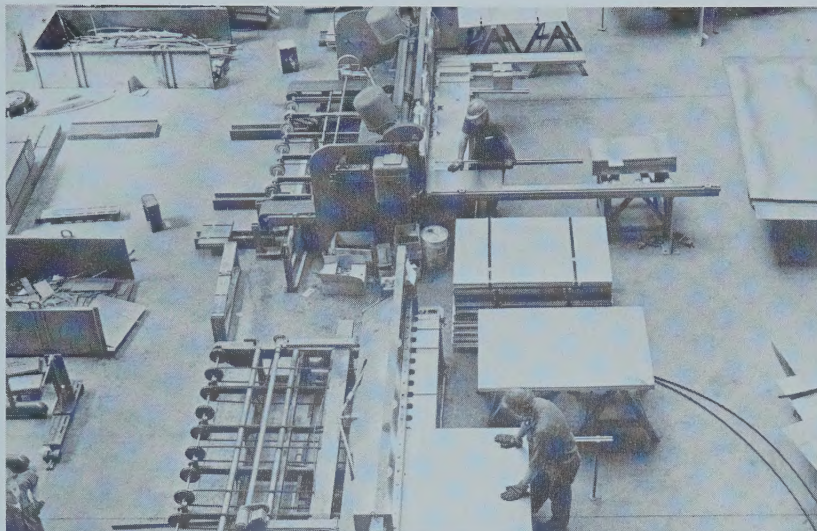


11





4



5



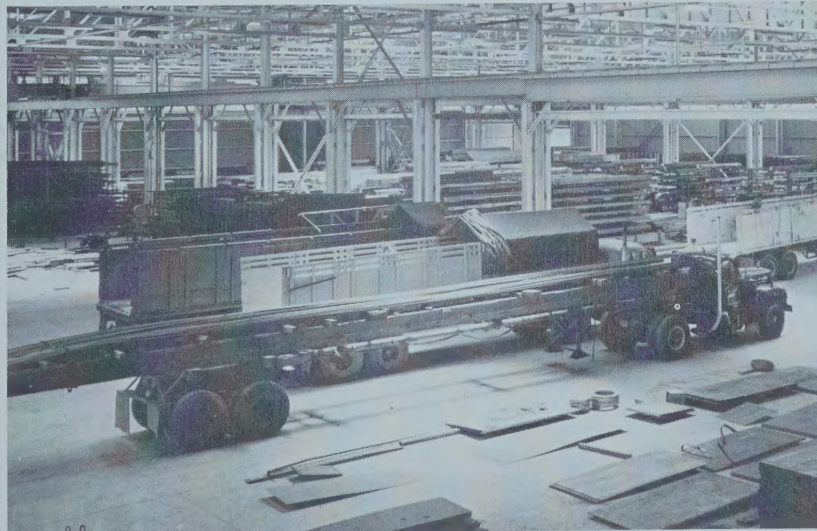
8



9



12



13

1. Section of Sales Office.
2. Salesmen discussing an order.
3. Data Processing Centre.
4. Mechanical tube storage.
5. Sheet shearing bay.
6. Flame cutting heavy plate.
7. Slitting cold rolled sheet.
8. Part of plate inventory.
9. Sheared sheet ready for shipment.
10. Cut-to-length line for sheet in coils.
11. Hacksawing structural steel.
12. Cold sawing alloy bars.
13. Shipping bay.

Statement of Earnings

For the year ended December 31, 1972

	<u>1972</u>	<u>1971</u>
Revenues		
Sales	\$54,980,472	\$49,141,721
Other income	97,800	147,116
	<u>55,078,272</u>	<u>49,288,837</u>
Cost and Expenses		
Cost of sales and expenses, before the under-noted	50,779,014	45,203,401
Depreciation	565,694	578,328
Interest on long-term debt	259,237	271,475
Other interest	197,483	184,526
	<u>51,801,428</u>	<u>46,237,730</u>
Earnings before Income Taxes	3,276,844	3,051,107
Provision for income taxes — Current	1,578,245	1,509,774
— Deferred	16,005	36,818
	<u>\$ 1,682,594</u>	<u>\$ 1,504,515</u>
Net Earnings		
Earnings per common share (Note 4)	<u>\$1.20</u>	<u>\$1.07</u>

Statement of Retained Earnings

For the year ended December 31, 1972

	<u>1972</u>	<u>1971</u>
Retained Earnings, beginning of period		
As previously reported	\$14,471,964	\$14,557,823
Depreciation adjustment	521,026	485,652
As restated	14,992,990	15,043,475
Net Earnings	1,682,594	1,504,515
	<u>16,675,584</u>	<u>16,547,990</u>
Dividends on Common Shares		
	Per share	
Regular dividends	1972 1971	
Class A — ordinary	50.7¢ 42.9¢	417,346
Class B — ordinary	35.7¢	217,249
— tax-paid	12.8¢ 36.4¢	64,094
Special dividends		235,875
Class A — ordinary	71.4¢	—
Class B — tax-paid	60.7¢	—
		537,500
		393,125
Other		
Tax paid to create		
— tax-paid undistributed surplus	11,506	—
— tax-paid undistributed income	—	66,000
	<u>710,195</u>	<u>1,555,000</u>
Retained Earnings, end of period	<u>\$15,965,389</u>	<u>\$14,992,990</u>

Balance Sheet

December 31, 1972

Assets**Current**

	<u>1972</u>	<u>1971</u>
Cash	\$ 11,460	\$ 12,190
Accounts receivable	9,130,218	7,785,865
Inventories, valued at the lower of cost and net realizable value	10,451,713	10,581,929
Prepaid expenses	20,453	28,593
Mortgage receivable	—	107,864
	<u>19,613,844</u>	<u>18,516,441</u>

Land, Buildings and Equipment, at cost

less accumulated depreciation (Note 1)	8,024,796	8,304,296
	<u>\$27,638,640</u>	<u>\$26,820,737</u>

Liabilities**Current**

Bank loans	\$ 3,947,321	\$ 3,922,607
Bankers' acceptances	400,000	800,000
Accounts payable and accrued liabilities	3,415,872	3,138,565
Income and other taxes	219,955	192,477
Long-term debt maturing within one year	100,000	100,000
	<u>8,083,148</u>	<u>8,153,649</u>

Long-term Debt (Note 2)

	<u>2,700,000</u>	<u>2,800,000</u>
--	------------------	------------------

Deferred Income Taxes

	<u>690,103</u>	<u>674,098</u>
--	----------------	----------------

Shareholders' Equity

Capital stock (Note 3)		
Common shares without nominal or par value		
Authorized		
Class A Convertible 5,150,000 shares		
Class B Convertible 5,150,000 shares		
Issued and outstanding		
Class A Convertible 898,600 shares }	200,000	200,000
Class B Convertible 501,400 shares }		
Retained earnings	15,965,389	14,992,990
	<u>16,165,389</u>	<u>15,192,990</u>
	<u>\$27,638,640</u>	<u>\$26,820,737</u>

Approved on behalf of the board:

D. T. BOURKE, Director

H. G. SEYBOLD, Director

Notes to Financial Statements

December 31, 1972

1. Land, Buildings and Equipment

Land, buildings and equipment consist of the following:

	<u>1972</u>	<u>1971</u>
Land, at cost	\$ 1,121,637	\$ 1,121,637
Buildings, at cost	7,905,185	7,894,550
Equipment, at cost	5,113,364	4,882,010
	<u>14,140,186</u>	<u>13,898,197</u>
Less: Accumulated depreciation	6,115,390	5,593,901
	<u>\$ 8,024,796</u>	<u>\$ 8,304,296</u>

Depreciation is computed based on the estimated useful lives of the respective assets. In 1972 the Company changed its method of computing depreciation from the diminishing balance basis, which coincided with maximum capital cost allowances permitted by income tax regulations, to the straight line basis.

Figures for 1971 have been retroactively adjusted for this change and for the resulting deferred income tax effect. The net earnings for 1972 were \$17,003 greater (1971 - \$35,374) than they would have been under the previous method of computing depreciation.

2. Long-term Debt

Long-term debt consists of the following:

	<u>1972</u>	<u>1971</u>
Bank term loan	\$ 800,000	\$ 900,000
Promissory note, 9¾%, due June 15, 1974	1,000,000	1,000,000
Promissory note, 9¾%, due September 1, 1974	1,000,000	1,000,000
	<u>2,800,000</u>	<u>2,900,000</u>
Less: Amounts due within one year	100,000	100,000
	<u>\$2,700,000</u>	<u>\$2,800,000</u>

The bank term loan agreement provides for interest at 1¼% above the bank's prime rate and principal repayments of \$100,000 in each of 1973 and 1974 and the balance of \$600,000 in 1975.

3. Capital Stock

By Supplementary Letters Patent dated September 28, 1972 the Company was converted from a private to a public company and its authorized and issued Class A Common Shares and Class B Common Shares without nominal or par value were reduced, increased, subdivided and reclassified on a 14-for-1 basis and the authorized and unissued 5% Redeemable Preferred Shares were cancelled.

The Class A and the Class B shares are interconvertible at any time at the option of the holder on a one for one basis and participate equally, subject to adjustment made for the tax-paid feature on the Class B shares, as to dividends.

Dividends on the Class B shares shall, unless the directors in their discretion consider it impracticable to do so, be paid in whole or in part, by way of cash out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand. Dividends on the Class A shares will be paid in an amount equal to the sum of the amount paid on the Class B shares plus any applicable amount of tax paid by the Company to create the amounts of tax-paid undistributed surplus pertaining to such dividends on the Class B shares.

4. Earnings per Common Share

The earnings per common share for 1972 and 1971 are after giving effect to the subdivision of the common shares on a 14-for-1 basis.

As at December 31, 1971 the capital stock was as follows:

5% Redeemable Preferred Shares par value of \$1 each	
Authorized — 3,366,725 shares	
Common Shares without nominal or par value	
Authorized	
Class A — 250,000 shares	
Class B — 250,000 shares	
Issued and outstanding	
Class A — 53,750 shares }	<u>\$200,000</u>
Class B — 46,250 shares }	

The dilution of earnings per share through the possible exercise of outstanding stock options is not significant so fully diluted earnings per share are not shown.

5. Information Re Directors and Officers

	<u>1972</u>	<u>1971</u>
Number of directors	10	7
Remuneration of directors as directors	\$ 10,450	\$ 7,850
Number of officers	7	7
Remuneration of officers as officers	\$293,602	\$284,680
Number of officers who are also directors	3	4

6. Stock Option Plan

Under an employee stock option plan adopted in October 1972, 50,000 Class A Convertible Common Shares are reserved for stock options at the fair market value of the shares on the last business day prior to the date of grant. At December 31,

1972, options were outstanding on 25,725 shares at \$10 per share (including 7,625 shares under option to officers), the options expiring October 1977. No portion of any option can be exercised prior to October 1973.

Statement of Source and Application of Funds

For the year ended December 31, 1972

	<u>1972</u>	<u>1971</u>
Source of Funds		
Net earnings	\$ 1,682,594	\$ 1,504,515
Depreciation	565,694	578,328
Deferred income taxes	16,005	36,818
Funds derived from operations	<u>2,264,293</u>	<u>2,119,661</u>
Mortgage receivable	—	107,864
	<u>2,264,293</u>	<u>2,227,525</u>
Application of Funds		
Land, buildings and equipment	286,194	465,631
Decrease in long-term debt	100,000	100,000
Dividends paid	698,689	1,489,000
Tax paid to create		
— tax-paid undistributed surplus	11,506	—
— tax-paid undistributed income	—	66,000
	<u>1,096,389</u>	<u>2,120,631</u>
Increase in Working Capital	1,167,904	106,894
Working Capital, beginning of period	<u>10,362,792</u>	<u>10,255,898</u>
Working Capital, end of period	<u>\$11,530,696</u>	<u>\$10,362,792</u>

Auditors' Report

To the Shareholders of
Drummond, McCall & Co., Limited:

We have examined the balance sheet of Drummond, McCall & Co., Limited as at December 31, 1972 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied (after giving retroactive effect to the change in the method of computing depreciation referred to in Note 1 to the financial statements) on a basis consistent with that of the preceding year.

February 15, 1973.

Price Waterhouse & Co.
Chartered Accountants.

***Drummond, McCall
& Co., Limited***